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TRADE POLICIES IN THE 1970's

REPORT

By Senator ABRAHAM RIBICOFF

TO THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., March 3, 1971.

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: In January I traveled on behalf of the Committee to London, Brussels and Paris. This was shortly after consideration by the Committee and the Senate of trade legislation contained in the Social Security Amendments of 1970.

In my additional views to the Committee Report on this bill, I pointed out that our country's trade policies will increasingly affect our relations with our European allies. My discussions in Europe re-inforced this view.

In Brussels, the headquarters of both NATO and the EEC Council, I exchanged views with our extremely knowledgeable envoy to the European Communities—Ambassador J. Robert Schaetzel. During my stay there, I was also briefed on NATO and military matters by our Ambassador to NATO, Robert Ellsworth. In Brussels, some of the foreign officials I talked to included:

Finn Olav Gundelach, Danish Ambassador to the European Communities.

Emmanuel Sassen, Dutch Permanent Representative to the European Communities.

K. D. Christofas, Minister, British Mission to the European Communities.

Louis G. Rabot, Director General for Agriculture, European Communities.

Theodorus Hijzen, Director General for Foreign Trade, European Communities.

In Paris, I renewed my acquaintanceship with Ambassador Arthur Watson. The Ambassador's background as a former Chairman of IBM is proving invaluable in dealing with the French on economic matters. His address last December to the French Diplomatic Press Association reflected his firm grasp of the outstanding economic problems between ourselves and Europe. The Embassy's Economic Minister, Bob Brand, was extremely helpful and his insights into these problems were particularly useful.

Some of the French officials and public figures I met with included:

Jean-Rene Bernard, Economic Advisor to President Pompidou.

Paul Huvelin, President of PATRONAT.

Luc la Barre de Nanteuil, Director, Multilateral Economic Affairs, Foreign Office.

Bertrand Larrera de Morel, Deputy Director for External Trade, Ministry of Economy and Finance.

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In London, I had the opportunity to meet with some of the people involved in British trade policies at this critical juncture in Britain's relations with Europe. Stanley Cleveland, our Economic Minister there, provided me with an excellent background to the problems raised by these negotiations. Others I met with included:

Anthony Grant, M.P., Joint Parliamentary Under-Secretary of State for Trade, Department of Trade and Industry.

Charles D. Wiggin, Head of American Department, Foreign and Commonwealth Office.

John R. H. Whitehorn, Deputy Director General, Confederation of British Industry.

M. H. Fisher, Deputy Editor, *The Financial Times*.

I have tried in the attached report to summarize my impressions of the key issues in U.S.-EEC relations and to suggest what initiatives and action should be undertaken by all concerned to avert future international trade conflicts.

I wish to thank the Department of State and its able representatives abroad for their invaluable assistance.

Sincerely yours,

ABE RIBICOFF.

TRADE POLICIES IN THE 1970's

Introduction

The Congress came close last year to enacting a foreign trade bill which would have had serious implications for both our domestic economy and our foreign policies.

The restrictions against foreign imports contained in the 1970 trade bill raised the grim possibility of the beginning of a trade war between ourselves and our major trading partners. Strong threats of retaliation against the United States were made by Common Market spokesmen and by a number of other countries. Fundamental relationships between ourselves and our closest allies were at stake—but these consequences seemed to be ignored by our policy-makers.

Against this background, I traveled in January on behalf of the Finance Committee to London, Brussels and Paris to explore the reasons for the deepening chill in our relations, and to determine how a constructive dialogue could be initiated before an even greater crisis was upon us.

The blame for the current impasse should not be placed only on the United States. The European Economic Community (EEC) and Japan, through their aggressive trade expansion policies and disregard for basic American economic interests, share at least an equal measure of guilt. Recently, they have been inclined to retaliate instead of negotiate.

Since its disastrous experiment with strong protectionist measures in the 1930's, the U.S. government has strongly advocated freer trade among nations. The successful conclusion of the Kennedy Round, which lowered tariffs by one-third throughout the world, was the most notable effort. As a former Senate delegate to the Kennedy Round GATT discussion from 1963 to 1967, I was pleased to be able to take part in this unprecedented accomplishment.

But today, the traditional methods and old slogans of international trade and investment are simply not relevant when dealing with the increased economic power of the EEC and Japan. The preeminent trading position of the United States in the world has faded, and we have run into difficult economic times and rising unemployment at home. The issue in 1971 for the United States is no longer trade expansion through free trade, but through fair trade.

Any significant change in economic policy today in one industrial nation inevitably has serious effects on industries as well as governments of other nations. Investment flows, balances of payments and trade balances are shaping national interests. As these trends continue, trade policies become more politically explosive. These questions have a direct bearing on fundamental foreign policy issues.

My discussions in Europe last month reinforced my view that during the last quarter of the Twentieth Century geoeconomics will replace geopolitics as the prime concern of international relations.

But the Administration and the Congress have not faced up to this new reality. We must reorder our priorities in foreign affairs elevating international economic problems to the high level of attention they deserve.

Our nation's and the world's future prosperity will increasingly, depend on whether the nations of the world trading community will be able to establish new workable rules of international trade and investment. The responsibility for beginning this formidable task must be shared by the United States, the EEC, and Japan more equally. The U.S. can no longer be expected to bear this burden alone.

In Europe I urged Common Market officials to issue a statement now of the EEC's future intentions, rather than wait to do anything until after negotiations for British entry are completed. This small, but vital step is the minimum necessary at present to get the major trading nations off dead center in resolving the conflicts between them.

At the same time that the Common Market pledges its future cooperation, the Congress must concentrate its own efforts on providing more effective adjustment assistance relief to industries and workers harmed by imports. Until the time is ripe for major legislation to expand world trade and investment, it will be necessary to withstand pressures for restrictions which may not be in the interest of the nation as a whole.

The time for laying the necessary groundwork for creating new norms of international trade conduct is now—and I hope that the Congress will play a constructive role in this vital task.

The 1970 Trade Bill

The background to the 1970 trade bill provides a case study of how not to make foreign economic policy. While one can understand why many industries vied for greater relief, it is more difficult to condone the infighting between the Departments and agencies of our own government. With the Treasury Department's main concern our balance of payments, Agriculture's in safeguarding our agricultural exports, Commerce's in promoting more U.S. industrial exports and investment abroad, State's trying to keep trade issues separate from foreign policy or submerged beneath diplomatic considerations, and a host of other agencies looking after their own special interests—our government's policies are often contradictory and conflicting.

The most disturbing aspect, however, was our government's failure to develop a defensible position on foreign trade consistent with the national interest and our overall foreign policy objectives. The Administration's casual use of the legislative process last year to apply pressure in a set of negotiations with a specific country constituted a high degree of irresponsibility. The risk far outweighed any possible gain.

Although the trade bill was introduced in late 1969 as a simple housekeeping measure, by the spring of 1970 the Administration was attempting to use it to wring concessions from the Japanese during negotiations in a so-called "voluntary" quota agreement for Japanese man-made and woolen textiles. What started in early 1970 as a tactical, if somewhat heavy-handed, negotiating ploy, clearly got out of hand. This should have been expected since other American industries have

serious problems too. Besides creating a needless crisis in our relations with Japan, the trade bill provided a vehicle for a batch of uncoordinated trade measures. Like Topsy—the 1970 Trade Bill just grew.

The poor state of our economy and rising unemployment understandably contributed to the growing sentiment for relief from increasing rates of imports. But, the passage of a jerry-built trade bill last year could have had disastrous consequence for world trade—and our own economy. Any decision signaling a shift in our nation's past policies should have come about through a careful weighing of all of the consequences, certainly not as a result of an attempt to settle a domestic political debt.

The apprehension and alarm with which the trade bill was viewed abroad was unanimous. Serious threats of retaliation against the U.S. were made by a number of countries—including our closest trading partners and oldest allies.

Last fall, the Europeans argued that passage of the 1970 trade bill would have had a considerable adverse effect on their economies. Quotas on textiles, they pointed out, would have affected all major countries, and shoe quotas would have affected Italy and Spain substantially. The escape clause changes plus the new trigger for quotas, they claimed, would have affected billions of dollars of Europe's exports. The Council of the European Economic Community declared that "the adoption of protectionist measures by an important industrialized country, could unleash a cumulative process of trade restrictions . . . the Community is ready to take the measures necessary to protect its interests should they be endangered."

A most likely first target of any EEC retaliation would have been our considerable soybean exports to the EEC, which amounted to \$640 million last year alone.

In addition to the threat of retaliation against American products, there was also serious talk by senior Common Market officials of new restrictions against our large investments in Europe.

The EEC's preparations for a trade battle, which fortunately never came about, are a clear portent of future conflict between the EEC and the United States. Relations between the United States and the EEC in recent years have been steadily worsening. There is little prospect for improvement since internationally, multilateral discussions on trade and monetary affairs are at a standstill.

The alarm raised abroad by the 1970 trade bill was genuine. But it should not have come as such a great surprise. Increased rates of imported goods plus restrictions on American exports in recent years have caused many Americans to take a closer, more critical look at our traditional trade policies.

Changes in American Attitudes

The present unemployment level of 6% in the U.S. is far heavier than any of the industrialized European countries have known for many years. Japan today is at full employment, and the EEC has stated that a "tolerable" unemployment rate is 0.8% in Germany and 3% in Italy. Our current rate of unemployment means that there are more than 5 million Americans today who cannot find work. They are making their voices heard—and they must be helped.

In 1959, 2.3% of America's shoes were made abroad. In 1969, 14% were. In 1959, we imported \$283 million worth of wearing apparel—in 1969 the figure was \$1.2 billion. Not surprisingly, the AFL-CIO last year supported the proposed quotas on textiles, apparel and footwear. According to their estimates, some 700,000 U.S. workers lost jobs due to imports between 1966 and 1969. A statement issued by the AFL-CIO while the trade bill was being considered, declared "free trade is no longer free nor trade".

Increasingly, certain American industries find themselves unable to compete with cheaper goods produced abroad by lower-wage labor—and often subsidized by foreign governments. Some larger manufacturers have reacted by establishing subsidiaries abroad to take advantage of lower prevailing wage rates there.

While the "runaway mill" may be one way of meeting foreign competition for industry, it is, of course, no solution as far as labor is concerned. When we speak of labor we are talking about people, their families, their communities, and their futures. Explaining the law of comparative advantage to a worker who has been laid off is not a particularly useful exercise.

The most powerful voices in opposition to changes in our current trade policies come from large U.S. corporations and banks whose multinational character and growing investments abroad dictate a freer trade posture. Already their production abroad represents a sizeable chunk of exports from and imports into the U.S. If it seemed strange for businessmen to be fighting for freer entry of goods into this country, and workers, who are after all consumers too, to seek restrictions on this flow—this is only a reflection of the unprecedented changes taking place in world trade patterns.

The Multinational Corporation

A critical factor in U.S.-European relations in the years ahead, and in relations between the underdeveloped and developed nations, is the rapid increase in the internationalization of production. Already, American firms produce more than twice as much abroad as they export. The French reaction to the "American challenge" posed by a rapid expansion of American multinational corporations has already become an important issue between our two countries. While many American companies are in fact expanding faster than their European rivals, European multinational firms more than hold their own elsewhere in the world. The current rate of capital outflow from Japan, the Common Market countries and the United States represents roughly the same proportion of GNP for all three.

At the same time that American investment is still a vital source of technological knowledge and capital for Europe, European countries are now transferring increasing amounts of long-term investment funds to the United States. In 1969, this flow to the United States amounted to \$27.5 billion, while the flow to Europe was \$26.7 billion.

The rise of the multinational corporation truly represents the beginning of a new era in international economic relationships. The crucial question here is whether this will be a source of conflict or a stabilizing factor. How do you reconcile the efficient exploitation of technological change with the desire of nations for economic independence? Given the enormous power of some of these corporate giants compared to the resources and skills of the less developed nations, the potential for political upheaval is enormous.

Our government, in conjunction with an enlarged EEC and Japan, must face up to the serious impact on foreign policy of the new phenomenon of the multinational corporation. The need to resolve the critical questions of the relationship between the multinational corporation and the nation in which it operates is just as pressing a problem as the task of eliminating barriers to international trade. The recently concluded oil talks and the continuing nationalization of foreign-owned interests around the globe testify to the urgent need of coming to grips with the awesome implications of the multinational corporation.

A Changing World Trade Picture

One fact of economic life that has not yet been fully digested here is that the European Common Market, not the United States, is the predominant trading power in the world today. The EEC, comprised of West Germany, France, Italy, Belgium, the Netherlands and Luxembourg, has already surpassed the United States in the volume of its foreign trade. With the anticipated additions of Great Britain, Norway, Denmark and Ireland, the EEC is expected to account for 40% of all the world's imports. By 1980, it is predicted that the combined GNP of an enlarged EEC will reach the trillion dollar mark.

Another fundamental change in our relations with Europe is that while their balance of payments position has markedly improved, due to strong inflationary pressures on our own economy, our own position is much weaker than it was a decade ago. Our balance of payments deficit in 1970, on an official settlements basis, reached 10.7 billion dollars.

Europe has come a long way from the devastation and ruin of 1945. Even the most casual visitor must be struck by the rapid pace of new construction, the large number of sleek automobiles caught in traffic jams, and the general affluence that pervades Western Europe today.

This economic renaissance is due both to generous Marshall Plan aid and to the ability of six nations with many differences to work together to forge common internal policies. However, largely as a result of these internal successes, problems have been created for the United States.

In spite of its new commercial position of preeminence, the EEC on the whole has continued to carry out policies of the past. Its institutional energies have been focused on the rationalization and harmonization of industry and agriculture within the six Common Market countries. This has inevitably led to frequent conflicts with our own country and there has been little success in ironing out differences. Only last December, Agriculture Secretary Hardin's meeting with the EEC Commissioner Dahrendorf was described as a "disaster" in the *New York Times*' account of this episode.

Japan's Stunning Economic Success

If our relations across the Atlantic have soured because Europe is now more of an equal, so has Japan's preeminent economic position in Asia presented new challenges to our foreign trade policies. Japan's economic growth has been more than matched by its phenomenal export growth. In 1968 and 1969, Japan increased its exports by 24% and 23% each year.

Much of Japan's export growth has been in the American market or in foreign markets traditionally served by U.S. products. This would be more acceptable if the Japanese themselves did not at present have some 100 separate quotas on imports, together with a truly amazing array of administrative procedures which make trading with Japan a painful exercise in frustration. Also, Japanese penetration of American markets has been stimulated by severe EEC restrictions on Japanese exports.

The need to come to terms with this giant in Asia is obvious. It seems to me that the more we must disengage from a military role in Asia, the more we should concentrate on economic policies to achieve stability and balanced growth in the entire region.

We must look beyond our present problems with Japanese textile imports. Actually they are of a very temporary nature since the Japanese are rapidly losing their competitive position. Imports of textiles into Japan itself are on the rise as the level of Japanese wages approaches that of the Common Market countries.

The following listing of comparative wage rates illustrates this:

	<i>Wages per hour in 1969¹</i>
United States.....	320.2
Japan.....	79.7
France.....	81.5
Italy.....	77.0
United Kingdom.....	131.9
West Germany.....	129.8

¹ Unit: U.S. cent.

These figures also show the great disparity between foreign wage rates and our own. While American technology can do much to overcome this gap, our government must see to it that American industries are allowed to compete on more equitable terms in international trade.

Nontariff Barriers

If the roles of the players have changed, so has the shape of the game itself. Nontariff barriers (NTBs) are today the major impediments to world trade, not tariffs.

To a noneconomist, nontariff barriers are a bewildering maze of restrictive trade practices whose bounds seem limited only by man's fertile imagination. I am told that some 400 different nontariff barriers have been identified. Broadly speaking, however, they can be lumped under several general categories:

- (1) Government participation in trade,
- (2) Customs and administrative entry procedures,
- (3) Standards which impede trade,
- (4) Specific limitations on trade quotas, and
- (5) Charges on imports.

These barriers present problems that are likely to grow with the rise in sentiment for more effective consumer protection and environmental control all over the globe. The relative competitive positions of whole industries and entire countries can be drastically changed by differences in internal policies from country to country. While our auto industries' recent proposals to raise bumper heights may, in fact, provide a larger measure of safety, imagine how the imposition of this standard would affect our trade relations with Germany and Japan

and other automobile exporters. On the other hand, safety or anti-pollution requirements put on U.S. industries may well price them out of export markets.

The need is urgent to begin dealing with these new problems before different national safety and environmental standards are set in concrete.

The problem of how to negotiate to reduce NTB's is extremely difficult. One suggestion is to trade them off in clusters. Another is to deal in specific policies cutting across particular barriers by setting international standards and guidelines for national decision-making. The greatest difficulty, however, is just getting such negotiations started.

The EEC's Common Agricultural Policy

In Europe, I had the opportunity to discuss the Common Agricultural Policy of the EEC, a nontariff barrier of crucial importance to U.S.-EEC relations. The CAP provides for extremely high artificial support prices for agricultural commodities in all six EEC nations.

With the completion of the Common Agricultural Policy in 1967, EEC imports from the United States for the items covered by the variable levy have declined by 40% in three years. Because the EEC's export subsidies are financed by import levies, there is no financial constraint on export promotion. The EEC system can truly be described as being mercantilistic in its willfull restriction of imports, stimulation of home production, and promotion of exports.

The variable levy system is far worse in its trade effects than import quotas. It is a total negation of any trade competition. The costs of these policies are being borne by third countries—and particularly the United States. It is only to the EEC and Great Britain that American agricultural exports have stagnated or fallen off significantly.

With the anticipated British entry into the Market, the problems of American agricultural exports there will increase. In an economic sense, increased British self-sufficiency in agriculture makes little sense. If Britain concentrated instead on modernizing her obsolescent industries, everyone would benefit. With British adoption of the CAP as it now stands, the United States would be entitled to heavy compensation for the consequent breach of its access rights. This particular question might prove to be academic since the British public is still solidly against UK entry into the Market. In addition to obtaining the most favorable terms for British entry, Prime Minister Heath has a considerable selling job to do within his own country. However, the expectation is that present differences on details of entry will be worked out, and that Britain will be a member of the Common Market by 1973.

If real progress is to be made in reducing trade barriers between ourselves and the EEC, the Common Market countries must begin to seriously consider the substitution of income support for its agricultural sector, in place of its present price supports.

The EEC's Preferential Arrangements

Another EEC policy potentially harmful to the world trading system is the proliferation of discriminatory trading arrangements negotiated by the EEC. Most of these have concentrated on agriculture or primary products. These agreements are in clear violation of the GATT rules.

The number of countries involved in such preferential arrangements is now twenty-four, with others being negotiated. While the present consequences to U.S. trade are still minor, the EEC is on its way to expanding into a world-wide trade bloc which could conceivably include even some Latin American countries. While temporary arrangements with former colonial territories of EEC countries make some sense, its preferential arrangements with Mediterranean countries are much less defensible. These arrangements, by including reverse preferences to EEC countries, could snowball to a point where the U.S. would find its access to world markets severely restricted, and trade competition with other outsiders intensified.

The EEC-NATO Link

In my discussions in Brussels, Paris and London with foreign officials and business spokesmen, certain general themes emerged. Along with a general feeling of relief that the 1970 trade bill had not been enacted, there was serious apprehension expressed over what future restrictive actions the Congress might take.

While there was genuine concern displayed over the deterioration of the U.S.-EEC relations, current EEC trade policies were vigorously defended in terms of the favorable U.S. trade balance with the Common Market. This slightly more than a billion dollar yearly export surplus for the U.S. over the past decade does not, however, tell the whole story. It is unfair to consider U.S.-EEC economic relations as distinct from U.S.-NATO security arrangements. Our trade surplus amounts to only a small fraction of our country's contributions to European security and the European economy.

The current annual costs of maintaining U.S. forces in the European area, including a proportionate share of the support base in the U.S., is estimated at \$7-8 billion. We also spend roughly double the percentage of our GNP on defense expenditures than do our NATO allies. Because of this, our favorable trade balance with the EEC should not be evaluated in isolation, especially by Europeans.

We should not hesitate to point to the considerable burden we still assume which enables Europe to pursue its commercial interests and to prosper free from fear of external threats. Our own government's reluctance to link our trade policies with our other foreign policies in Europe undoubtedly encourages our European allies not to take us seriously in defending our economic interests.

In his State of the World message last year, President Nixon stated: "Intra-European institutions are in flux. We favor a definition by Western Europe of a distinct identity, for the sake of its own continued vitality and independence of spirit. Our support for the strengthening and broadening of the European Community has not diminished. We recognize that our interests will necessarily be affected by Europe's evolution, and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the West as a whole."

This was an open-ended invitation to Europe to continue to ignore the economic interests of the U.S.

When the United States threw its weight behind a more unified Europe, we never expected the EEC always to agree with us. But it was fair to expect the Common Market to play a significant role in

improving world economic relations. President Kennedy in 1962 put it this way:

"We do not regard a strong and united Europe as a rival but a partner . . . capable of playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of commerce and commodities and currency, and developing coordinated policies in all economic and diplomatic areas . . ."

His observations are even more pertinent today with the EEC's growing economic power.

European leaders must become more aware that American political support for a more unified Europe will weaken if Europe's increased economic strength is used to harm American interests. It is almost beside the point to list specific European grievances against the U.S. The essential point is that the U.S. and Europe will come into increasing conflict unless there is much greater sensitivity shown by Europeans for American's economic problems—and more of an appreciation for the pressures these generate on the Congress.

The Need for an EEC Initiative

The most significant portions of my discussions did not dwell on past grievances—fancied or real—but on future opportunities to improve relations between the U.S. and Europe. The following are some of the key questions I raised:

1. If Europe insists she cannot do more on security contributions, can she take a more positive role in terms of trade policy and foreign economic policy generally? As NATO issues become less central, there is certainly more room for European initiatives on other fronts—Brandt's *Ostpolitik* furnishes a most appropriate example.

2. Why can't the EEC, as the major trading entity in the world, begin negotiating on two parallel levels—with the UK on one, and the U.S. and the rest of the world on another?

3. The EEC and the U.S. are on a collision course on several issues. Yet, the EEC maintains that the U.S. must wait until enlargement is completed before any broader discussions can be held on third country problems. The U.S. is now in relatively poor economic shape, with a climate of protectionism in the Congress. Under the circumstances, shouldn't the EEC take the lead in stimulating a serious dialogue on our outstanding problems?

The essential problem to my mind, is not one of seeking further reductions of tariffs or eliminating specific quotas, but in ending mutual recrimination and working out ways to coexist and cooperate. From an American point of view, the EEC appears to be looking after its own internal interests to an excessive degree and to the detriment of outside countries. It is difficult to fully accept the argument that the EEC cannot take part in trade negotiations at the same time their enlargement process is taking place.

The problem is surely not one of sufficient negotiating manpower, since the Europeans seem to have an abundance of qualified, competent trade negotiators. The other major argument—that the political unity of the EEC has not progressed sufficiently—can be used in-

definitely. What is obviously lacking is the requisite will to assume responsibility for the world economy as a whole. The U.S., it should be recalled, has been the originator of every major trade initiative on an international basis since 1934.

The most direct European initiative would be for a member country, or the EEC Commission itself to suggest a new trade overture which would be transmitted to other countries after approval by the Council of Ministers. But this approach is not really feasible because of the considerable time this could take. Also, it would be difficult to overcome the great inhibition against undertaking any major action during British entry negotiations.

Recourse to traditional GATT-type negotiations are no longer a solution either. The techniques that worked well to reduce tariffs are grossly inadequate in dealing with NTB's. The EEC is simply too big and powerful to negotiate with other countries in the same way as in the past. In any event, it might take several years before the proper climate in the various countries could lead to formal comprehensive negotiations. The success of the Kennedy Round in reducing tariffs could not be expected to repeat itself without the solution of many other trade and investment problems first.

EEC Statement of Intent

There is, however, one important initiative that should be undertaken now by the EEC with a minimum of preparation and difficulty which could lead toward serious negotiations later.

I believe that the EEC should state now its intention that after enlargement is agreed to in principle, it would actively pursue liberal trade policies and seek a reduction of NTB's. A positive statement of intent now would be a definite plus for the EEC by helping ease pressures for new restrictions in the U.S. This would undoubtedly contribute to more balanced policies here pending the outcome of British entry negotiations.

My suggestion for the issuance of this statement of intent by the EEC was received with sufficient interest in Europe to lead me to believe that this is a distinct possibility. While this declaration is no substitute for eventual high level consultations and negotiations on a host of vexing international economic problems, a statement of intent now could ease the crisis atmosphere between ourselves and Europe over trade issues. If, in addition, Japan could pledge her future cooperation and pledge her restraint, we would have the time necessary for laying the groundwork for serious negotiations in the future.

The longer the EEC waits to make this small start, the more the problems will multiply and positions harden. The time has come to stop discussing petty differences and to begin dealing with the basic philosophical issues involved.

Possible U.S. Initiatives

There are some initiatives that could be undertaken soon with a minimum of difficulty. The Organization for Economic Cooperation and Development, comprised of twenty-two full member states has already scheduled its annual ministerial-level conference this coming June in Paris. Our Secretary of State will chair the meeting this year. This would be an appropriate occasion for the United States to seek OECD Ministerial endorsement of efforts by international institutions to lay

the basis for the creation of a new set of trade and economic policy mechanisms. It would be useful if the Congress could send observers to this conference.

The United States should also seek discussions among Trade and Finance Ministers on the specific policies of member countries which have been causing friction, and try, at a minimum, to sort these non-tariff barriers out.

Another initiative the United States should undertake is to propose the creation of a group of distinguished "wisemen" representing the major trading countries. This format gives the participants more independence from national policies and greater leeway in their discussions. Their deliberations on the outstanding problems of international trade could be the prelude to more formal negotiations. This informal mechanism has been used successfully in the past by the OECD. It should be given serious consideration now as a means of focusing the attention of the international community on these issues.

The New Council on International Economic Policy

Increasingly, commercial and economic issues are replacing traditional security and strategic questions as the mainsprings of foreign policy. If the U.S. is to meet the new challenges to world stability and to its domestic economy, we must formulate our foreign economic policies at the same high level of government as our national security policies.

Geoeconomics is rapidly replacing geopolitics as the prime mover in the affairs of nations today. But the United States, more so than any other industrialized nation, is unprepared to deal with these changed circumstances.

American diplomacy in the 1960's toward Europe, for example, concentrated on NATO political-military issues—but these issues were of declining interest to Europeans. While we concerned ourselves with the NATO order of battle, the Germans were more concerned over orders for Volkswagens.

The recent establishment of the Council on International Economic Policy in the White House reflects a belated awareness of the dangers of treating foreign economic issues on a significantly lower level than foreign political issues. It was also spurred by the realization that some sixty separate bodies in the Executive Branch shared responsibility for foreign economic affairs. The new Council is chaired by the President, with the Secretary of State as vice chairman.

The Council was formally charged with the responsibility for the development of international economic policy and its relations to domestic economic policy. At first blush, the Council appeared to be on a par with the powerful and prestigious National Security Council. But a closer examination of some of the organizational details in the President's announcement reveals some basic weaknesses.

First, where the Council's responsibility overlaps with that of the NSC, in foreign aid, for example, the Council must operate under NSC guidance.

Secondly, in the all-important areas of coordination within the government, and the implementation of decisions reached, the Operations Group given this responsibility is to be headed by the State Department—and not the new Assistant to the President for Foreign Economic Affairs. This divorce of planning and implementation could seri-

ously affect the Council's effectiveness in giving due regard to the domestic and foreign economic consequences of a foreign policy problem.

Creation of the Council was an explicit admission that we have been remiss in properly coordinating our foreign economic policies with our domestic policies as well as our foreign policies. To create such a Council with one hand, and give back to the State Department all of the relevant powers with the other, is to miss what the critical need was.

Thinking Ahead

Better coordination and higher level attention must be accompanied by more long range projections of foreign economic trends. For example, the EEC is now actively considering the creation of a single monetary system. The considerable effects of this new union on our own country should be evaluated now.

Other moves toward greater European economic integration will undoubtedly have great political impact. But I doubt very much whether any planning is underway to protect United States' interests as unity progresses.

More attention should be given to what trade patterns will look like ten and twenty years from now. According to one recent private analysis, as our economy becomes increasingly service-oriented with a relative decline in goods producing industries, exports of manufactured goods should become less important for American producers. According to this theory, U.S. businesses that are labor intensive are more likely to resort to direct production abroad. As returns from overseas rather than exports become more important for our balance of payments, this will also have a great impact on our economy and employment picture. Studies of these and other long range questions must be started now—and their implications weighed not only by the Executive, but by the Congress.

The Role of the Congress

In the short-run, the main task of the Congress should be to provide adequate relief to American industries and to unemployed workers injured by imports. Whether this can be achieved without opening a Pandora's box of indiscriminate protectionist measures depends on the restraint and patience of legislators under heavy pressures. The Congressional Quarterly recently reported that the trade bill was the most heavily lobbied piece of legislation in the past session.

But if the Congress must refrain from taking an activist role in trade policy until serious international negotiations can begin, more relief must be provided by modifying existing mechanisms. There are various possibilities which might offer the help without the negative consequences of major new legislative restrictions.

There could be greater use of countervailing duties under the 1930 Tariff Act to protect American industries from subsidized imports. The justification for applying this law more vigorously is basically that American businesses should not have to compete against the Ministry of Finance of a foreign country. Until some future system of multi-lateral rules does away with government subsidies entirely, the Secretary of the Treasury should be given the discretion to ease off on these duties once they are set, thereby giving him greater negotiating

leverage. If other countries dislike this approach, they should express willingness to negotiate common international rules on subsidies and countervailing duties on all trade.

Under Article 23 of the GATT, retaliation is permitted against quotas imposed on our own goods. Until now, we have not made recourse to this provision. But if our exports are faced with unreasonable restrictions, we might wish to reconsider in order to defend our economic interests.

Section 252 of the 1962 Trade Expansion Act permits us to raise duties and to impose quotas on foreign agricultural products in order to counter illegal restrictions used against us. This, too, might be used more vigorously, or, at least as a threat.

A recent promising development is the greater willingness displayed by the Tariff Commission to authorize trade adjustment assistance. Assistance to workers under the Trade Expansion Act of 1962 provides for cash readjustment allowances, testing, training, job placement, and relocation if desired.

At present, the maximum cash allowance equals 65% of the national average weekly wage in manufacturing. This should be increased substantially, and such assistance should be made easier to apply for. At the same time that industries are being helped, consideration should be given to requiring industry to report on the steps they are taking to become more competitive or to move into new lines.

An industry harmed by foreign competition should be given a combination of protection and adjustment assistance with the goal being adequate transitional adjustments, rather than providing a permanent crutch.

Present escape clause provisions are too rigid and take too long before a determination of injury is made. The President should have the powers to give immediate relief pending an ultimate determination as to whether relief is called for. This would be particularly beneficial to small businesses dealing in seasonal products which do not have the financial staying power to wait out a final determination of injury. These relatively minor adjustments in present laws would provide more prompt and effective relief from imports that are acknowledged to be either unfair or genuinely injurious to domestic industries and workers.

Because of the far-reaching impact of any new trade legislation, I hope that the Finance Committee this year will hold full and comprehensive hearings, with a greater emphasis on the foreign policy ramifications of proposed actions.

The Global Implications of our Trade Policies

More concerted efforts must be made to put our relations with the Atlantic nations, Japan and the rest of the world on a course relevant to the real issues of the 70's and 80's. Such a course requires the development of new and improved international institutions and consultative frameworks to eliminate nontariff barriers to trade, to regulate policies toward multinational companies, and to harmonize balance of payments problems.

A general principle which must be followed in establishing these new procedures is that when the costs of domestic policies are passed on

to other countries, adequate compensation must be made. This concept should be the guide in dealing with the whole range of trade problems and notably, nontariff barriers.

These are the issues which will concern Europe in the next two or three decades as she unifies further along economic lines. Japan will undoubtedly continue to be preoccupied with trade as she strives to maintain her fantastic growth rate. The Soviet Union faced with rising expectations internally will undoubtedly have to move much further into the mainstream of world trade. Mainland China, as she emerges from her political and economic isolation, will pay more attention to her international trade position.

The extent to which the gap between the have and the have-not nations will be narrowed will depend in large measure on the trade rules devised to assist them in finding markets for their exports. The economic and political stability of the entire world may well depend on how quickly and adequately the desperate needs of these developing nations can be met.

Because of present economic conditions in the United States, and a rapidly changing world economic picture, the EEC and Japan must assume a greater share of the responsibility for the freer flow of trade and investments between nations. We must all work together to halt the slide toward increasing trade conflicts that could destroy the prosperity of all nations. An EEC statement of its future intentions could provide the stimulus needed for the creation of new norms of conduct in international trade.

The development of workable fair rules among competing nations is one of the most pressing tasks we face. The U.S. Senate, and in particular the Finance Committee, have a vital role to play in preparing the way for a new era of international trade and investment. We will be judged by the wisdom we show not only in how well we protect the interests of the American worker and our industries, but what regard we give to the future economic well-being of our nation and the entire world.

If my trip to Europe convinced me of anything, it is that the road to the future prosperity of the entire world, including the U.S., is through new efforts at international cooperation between all the major trading countries rather than through seeking temporary national advantage. The leaders of these nations all share the responsibility for establishing an international trading system that will assure the raising of the standard of living of peoples everywhere.